FACTORS INFLUENCING LOAN REPAYMENT AMONG MICROENTERPRISES IN THE GREATER ACCRA REGION: A CASE STUDY OF LA NKWANTANANG-MADINA MUNICIPALITY.

BY

RAHAMATU ABUKARI
(ID. NO. 10599042)

THIS DISSERTATION IS SUBMITTED TO THE UNIVERSITY OF GHANA, LEGON IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF ARTS (MA) DEGREE IN DEVELOPMENT STUDIES.

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DECLARATION

I, Rahamatu Abukari, hereby declare that except for the references of other peoples’ work which have been duly acknowledged, this research work titled “Factors influencing loan repayment among microenterprises in the Greater Accra Region: A case study of La Nkwantanang-Madina Municipality ” is my original work carried out under the supervision of Dr. Isaac Osei-Akoto. This work has neither in part nor in whole been submitted for any other degree in this University or elsewhere.

………………………….

Rahamatu Abukari
(Student)

………………………….

Dr. Isaac Osei-Akoto
(Supervisor)
Although microenterprises contribute significantly to the growth and development of every country, they are confronted with double-barren issues of access to credit and loan repayment. Existing studies that have attempted to estimate factors associated with loan repayment have also relied heavily on limited micro-finance datasets while others have concentrated on loan repayment among farmers and thus leaving loan repayment among microenterprises at the regional and national level largely unexplored.

This study therefore explored socioeconomic factors and loan conditions that associate with loan repayment among microenterprises in the Greater Accra region using a nationwide survey dubbed the Ghana Socioeconomic Panel Data Survey of 2014. The survey had 5009 households and covered several aspects of debt holdings for household members. A total of 144 (26.8%) households with debt holdings for the Greater Accra region were compared to 1420 (33.5%) debt holdings for other regions as well as 678 (36.5%) debt holdings for households with microenterprises. The loan conditions and socioeconomic factors associated with loan repayment for these debt holdings were compared to situations of Greater Accra region, Ghana and households with microenterprises. To ensure triangulation of data, in-depth interviews with some purposively selected micro-entrepreneurs were conducted to further deepen the understanding of the factors that influence loan repayment of households.

The study found that in the Greater Accra region, borrowers with some level of formal education were less likely to repay their loans compared with borrowers without any form of education. It was also found that borrowers who obtained loans for the purposes of consumer goods were less likely to repay their loans. The study recommends that creditors of loans to microenterprises in
the Greater Accra region should consider factors such as age, educational level, purpose of loan and sources of loan in designing credit facilities to determine who is likely to pay back a loan on time.
DEDICATION

This work is dedicated to the Almighty Allah for a successful completion of this programme. To my parents and siblings for their words of encouragement and support.
ACKNOWLEDGEMENT

My sincerest gratitude goes out to my supervisor Dr. Isaac Osei-Akoto for all the help, ideas, support and guidance he provided for the successful completion of this work and also assisting me in accessing the Ghana Socioeconomic Panel Survey 2014 data set.

I am also grateful to all the other lecturers, my colleagues and supporting staff at the Institute of Statistical, Social and Economic Research (ISSER) for their advice and my family for the financial support and words of encouragement.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microenterprise has since the period of Africa’s loss decade in the 1980s remained a major source of livelihood for both the skilled and unskilled population in Africa and has also become a central theme in most development agendas across the globe (Filmer and Fox, 2014; Edgcom et al, 2014). Its relevance towards augmenting access to employment and income is thus evident in developed and developing countries (Kraemer, 2001; Page and Söderbom, 2012; Mano et al. 2011). For instance, Page and Soderbom (2012) observed that microenterprises provide about half of new jobs in Africa and also offer income opportunity for the poor and disadvantaged labour force.

According to Midgley (2014:138), ‘microenterprises are small businesses operated by poor people but unlike other small businesses, they are supported by sponsoring organisations including faith-based and non-governmental organisations, cooperatives and government agencies which provide technical advice and loans for start-ups, often at preferential interest rates’. By extension, this definition of microenterprise implies that the poor require financial assistance in order to engage or set-up a microenterprise.

Central to every discourse relating to microenterprise however, is the idea of access to credit, especially among the poor who by virtue of their socioeconomic status and limited assets in terms of stock of cash flow finds it difficult to setup an enterprise. Based on ownership and access to credit, Midgley (2008) distinguished between sole proprietor microenterprise and peer
funding agencies while the latter apply to situations where creditors of microenterprises only grant or lend monies to solidarity groups consisting of no less than five people.

Recently, however, creditors of microenterprises have become considerate about who deserves to be given credit to setup an enterprise. Drawing from the literature, it is argued that a number of factors account for the limited funding opportunities to microenterprises.

According to Chelagat (2012), microenterprises are faced with multiple risks of uncertain competitive environment which to a large extent affect their profit making, especially because their trade is mostly not protected by copyright. In such competitive environment coupled with limited profit, owners of microenterprises are unable to pay back their loans and it is associated with accumulated interest. This situation according to Olawale and Garwe (2010), account for reasons why about 70 percent of newly established microenterprises in South Africa are unable to become fully established firms or grow. Others also noted that high risk of vulnerability and turnover makes it practically impossible for microenterprises to gain access to credit. In developing countries for instance, Schiffer and Weder (2001) associate the challenge of access to credit and repayment by microenterprises to volatile political climate. The authors argue that political insecurity reduces the influx of international investors and donors who mostly support individuals with cash, with or without preferential interest to establish microenterprises.

In Sri Lanka, Yogendrarajah and Semasinghe (2016) used multiple regression analysis to estimate factors influencing loan repayment among 337 female micro entrepreneurs who borrowed from microcredit institutions. Their analysis showed that factors such as loan interest,
amount of loan, control over assets, loan decision and management were significant determinants of loan repayment. Other studies (e.g. Ugbomeh et al. 2008; Onyeagocha et al. 2012) also found collaborating evidence that loan size and household headship often account for default payment. According to Ugbomeh et al. (2008), female household heads are more likely to default compared with their male counterparts. Conversely, Midgley (2014) noted that men who contract loan for microenterprise are less likely to pay back the loan, especially due to the tendency of drinking and multiple sexual partners.

In most part of Africa where poverty, unemployment and macroeconomic instability has remained challenging to business growth, the tendency of vulnerability to default payment by microenterprises is induced by many factors including high interest charges on loans by creditors, diversion of loans into unintended business plan and for consumption, as well as information asymmetry with regards to interest charges (Oludayo, 2015; Obamuyi, 2007). In Southwestern Nigeria for example, Oke et al (2010) did an empirical analysis of microcredit repayment among 200 borrowers from microfinance institutions and found that income, loan size, interest on loans, and membership of cooperative societies are among factors that significantly influence loan repayment by microenterprise owners.

In Ghana, existing studies on loan repayment found different reasons for non-payment of loans, but particularly among rural and agricultural workers (e.g. Odonkor 2013; Wongnaa and Awunyo-Vitor, 2013; Abu et al, 2017). Given the complexity of factors influencing loan repayment as a whole based on the literature, and the lack of empirical evidence on the socioeconomic factors affecting loan repayment by microenterprises in the Greater Accra region in general and the La Nkwantanang-Madina Municipality in particular makes it imperative for
this study to contribute to the ongoing debate about the multiplicity of factors affecting loan repayment by microenterprises.

### 1.2 Problem Statement

Access to credit in Ghana by microenterprises is quite problematic, especially for starters who have no collateral or saving histories to enable them access certain amounts of monies from financial institutions to establish or expand their businesses. Also, very critical in the Greater Accra region is the fact that youth unemployment and rising cost of living in the national capital, Accra and its adjoining towns is believed to force borrowers to divert loans for unintended purposes and as a result, many financial institutions are reluctant to grant loans to borrowers despite the increasing number of financial institutions in the region in particular and Ghana in general (Boateng and Agyei, 2013). For instance; data obtained from the Bank of Ghana indicate that as of January 2017 there are 34 registered banks in Ghana, 140 rural and community banks, 70 non-bank financial institutions (NBFIs) including 37 registered savings and loan companies and 10 financial non-governmental organisations (FNGOs). In the Greater Accra region alone, there are seven (7) registered rural and community banks.¹

The presence and distribution of these financial institutions make it relatively easy for microenterprises to have access to credit, provided all terms and conditions are met. The challenge however is that, the proliferation of these lending and financial institutions throughout the country makes it possible for borrowers to borrow monies from different financial institutions and at the end are unable to repay their loans while others are also unable to make short and long-term gains in their businesses to repay their loans due to poor business

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¹This can be seen in the link below https://www.bog.gov.gh/privatecontent/Banking_Supervision/Licensed%20Banks 20-December2016 (updated).
performance. More importantly, information asymmetry in the financial market is one dimension of the challenge in the literature which is believed to compromise loan repayment effort by microenterprises (Oludayo, 2015; Obamuyi, 2007). Yet, there is no standardised access to information on loan agreement, especially between informal creditors and borrowers who double as micro-entrepreneurs.

An initial engagement with the planning officer during field visits to the municipal office on microenterprises in Madina in the La Nkwantanang Municipality revealed a growing number of microenterprises in the Municipality. While this holds a promise for employment generation in the municipality in particular and the nation as a whole, some researchers (Boateng and Agyei, 2013) have observed that loan defaulters were ruining the rural banks with non-payment of loans contracted for business establishment. The statement hinged on qualitative evidence that majority of microenterprise owners have failed to pay back their loans. Regardless of this growing concern, there is limited empirical evidence on factors influencing non-payment of loans by microenterprises in the La Nkwantanang- Madina Municipality. Access to this information is therefore necessary to guide decision making by banks and other financial institutions interested in lending monies to microenterprises while avoiding the tendency of non-payment. It is against this backdrop that this study seeks to estimate the proportion of households with debt holdings in the Greater Accra region, to estimate the socioeconomic factors associated with loan repayment and also to ascertain the effects of loan conditions on loan repayment.

2 La Nkwantanang-Madina Municipality is one of the study areas selected by ISSER for the MA program for the 2016/2017 academic year.
1.3 Objectives of the Study

The study generally seeks to examine the factors influencing loan repayment among microenterprises in the Greater Accra Region. In particular, the study aims at the following specific objectives:

i. Estimate the proportion of households with debt holdings in the Greater Accra region;

ii. Estimate the socioeconomic factors associated with loan repayment among microenterprises; and

iii. Ascertain the effects of loan conditions on loan repayment.

1.4 Research Questions

Based on the objectives of the study, the research sought to answer the key question;

i. Which factors influence loan repayment among microenterprises in the Greater Accra Region?

1.5 Hypotheses

In order to address the research objectives above, the following hypotheses was tested.

i. Ho: Repayment of loans is independent of the socioeconomic characteristics of borrowers.
   
   H1: Repayment of loans is dependent on the socioeconomic characteristics of borrowers.

ii. Ho: Loan repayment does not depend on loan conditions.
   
   H1: Loan repayment depends on loan conditions.
1.6 Significance of the Study

The current study is significant in three ways. First, microenterprises are accepted as the engine of economic growth and source of employment for Ghanaians. Thus, it should be of great concern. Second, frequent loan default has been identified as a key element for the denial of financial credit (financial assistance) to microenterprises. Access to credit facility is a crucial input required for the establishment of microenterprises. Third, microenterprises in Ghana rarely meet the conditions set by financial institutions due to their volatility, competition and unpredictable profit making (Chelagat, 2012). These issues combine with experience of non-payment of loans by borrowers make it difficult for lenders to deny credit access to microenterprises. Knowing the factors influencing loan repayment will thus help lenders make accurate decision as to who should benefit from loans based on borrowers’ socioeconomic characteristics. This will go a long way to strengthen and deepen financial inclusion while at the same time shape the decision by prospective micro-entrepreneurs with regards to soliciting for loans for the establishment of microenterprises.

1.7 Limitations to the Study

The main constraint of this research was the difficulty in getting information on loan repayment using a questionnaire that is specifically designed for this topic. From the literature, information on individual debt situations is usually buried among several modules of multi-purpose surveys. This is because respondents generally feel uncomfortable discussing issues around it. Also, most financial institutions in the study area, for strict rules on confidentiality, were not willing to give out the list of borrowers in their institutions to assist the study to follow appropriate use of sampling techniques. This compelled the study to the use of secondary data, which has adequate
information on the issues identified from the literature. Financial and time constraints also made the researcher to limit the sample size for the qualitative study to 6 personal interviews even though the researcher had done earlier engagement with the institutions.

1.8 Organization of the Study

This study is organized into five chapters. The first chapter looks at the background of the study, problem statement, and objective of the study as well as research questions, hypothesis, the significance of the study and the limitations to the study. Chapter two presents the literature review and conceptual framework relevant to the study. Chapter three looks at the methodology with specific focus on sources of data and data analysis used to achieve the set objectives. Chapter four presents the analysis and discussion of the results while chapter five presents the summary, conclusion and recommendations based on the results.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature underpinning the study. It begins with a historical perspective on the evolution of microenterprises, followed by conceptualisation of borrowing and lending. Subsequent review hinges on the characteristics of borrowers and their effects on loan repayment. The last section draws on a proposed conceptual framework by Bouman (1989) to discuss both exogenous and endogenous factors relating to loan repayment.

2.2 Historical perspective on the evolution of microenterprises

The evolution of the concept of microenterprise is traced to the period of 1976. The concept was first introduced in Bangladesh by the Grameen Bank also referred to in the literature as ‘Bank of the Poor’ and founded by Yunus Muhammed. Scholarship on the concept show that the genuine intention of microenterprise was to alleviate poverty among the disadvantaged in society, especially women who by virtue of their gender had long been economically disempowered, but contributed significantly to household wealth creation. The underlying philosophy of the Bank was that access to credit by the poor was a fundamental human right to economic freedom and empowerment. Between 1980 and 1998, the Bank had increased credit access from 2.34 million borrowers to 7.67 million borrowers.³

³ This can be found in this link Micro-enterprise. Retrieved from https://en.wikipedia.org/wiki/Micro-enterprise
In the United States of America, Edgcomb and Thetford (2014) observed that microenterprise development evolved about two and half decades ago and has since grown significantly in terms of numbers. Access to credit by microenterprises has also increased proportionately through deliberate state and private sector interventions to boost business development and create more jobs. For instance, they add that micro-development organisations have equally increased their lending support for the poor by about 25 percent, thus making access to credit a pre-requisite for reinforcing economic right and empowerment.

In the case of Tanzania, microenterprises were a male dominating occupation prior to the 1980s because women were economically disempowered by tradition to engage in any economic activity. Men had the responsibility of remitting the home and as a result had to work by all means possible to raise income in support of family growth (Samwel, 2014; Olomi 2001; Nchimbi, 2002). Thus, the responsibility of a natural household head coupled with poverty made it a precondition for men to get into microenterprise and to solicit for credit from any available means possible, usually friends and micro lending agencies. In the 1980s however, economic recession in Africa coupled with high unemployment rates and job cuts in the public sector compelled women to join their male counterparts in search of economic gains through establishment of micro-businesses, preferably, agriculture and agribusinesses (Kabeer, 1997; Kevane and Wydick, 2001).

In North Western Cameroon for example, Abonje (2012) noted that household hardship and need for income constituted the major reasons for microenterprise development. Their study further revealed that of about 17 percent of those who engaged in microenterprises did so for the love of the business. By extension, this implies that in the context of Cameroon, economic motive is paramount for establishment of microenterprises by the poor. This could also be the case for
most countries in Africa since the underlying conceptual assumption for microenterprise is to provide a means of livelihood for the poor.

Studies however show that the success of microenterprise is dependent on several factors including access to credit for setup and expansion, type of business, the business climate and the qualities of the business owner (International Labour Organisation, 2005; Krieger, 2000). In the past, when microenterprises were solely agriculture and agribusiness, the success of microenterprise was solely dependent on the weather. Farmers who contracted loans were unable to payback their loans whenever extreme climate and weather event occur for longer periods. In such situations, agricultural produce got spoilt and in other cases most people in the villages were equally producing in different capacities and varieties of crops and so market for agricultural produce, especially food crops were not encouraging (Suhaimi et al. 2016; Teoh and Chon, 2014). Those who were unable to raise income to payback their loans because of extreme weather conditions struggled to re-enter into business and were equally denied access to credit by their initial lenders, mainly wealthy community members and rural elites.

Recently however, microenterprises have grown beyond just agriculture and agribusiness to include but mainly trade in edibles and tangible goods. In urban areas and mostly Commercial Business Districts (CBDs), there is increasing evidence of people engaged in the sale of secondhand products and other innovative services and goods particularly mobile phone accessories, secondhand clothing and shoes, variety of food crops and vegetables and other auxiliary goods (Daniels, 2004). A significant transformation in the evolution of microenterprise however is the fact that lending organisations and individuals have increased proportionately and therefore has given rise to easy access to credit by the poor (Fafchamps et al. 2014). This is evident in the numerous examples of both registered and unregistered microfinance institutions
scattered all over the world and most especially in the global south (Sofi, 2012; Yildirim, 2009; Banerjee & Duflo, 2004). The competition in the formal and informal financial market as well as the increasing number of borrowers have created a situation where lenders now dictate how their monies are to be used by borrowers and in most cases offer periodic checks by embarking on frequent or regular visits to ensure that monies lent to microenterprises are used for the intended purposes. While this practice may seem a positive attempt to ensure business growth and success, scholars like Yildirim (2009) and Fafchamps et al (2014) questioned the role of microfinance institutions with regards to safeguarding the interest of the poor. For instance, Yildirim (2009) investigated microfinance for the poor and asked the single most important question of whether microfinance to the poor is a burden or blessing. In his celebrated article, the author explained reasons why some microenterprises are unable to grow is largely because of high and unfavourable interest charges and undue pressure to pay back loans within specific periods coupled with its attendant penalty charges.

Other literature disagrees based on empirical findings that several other factors contribute to loan repayment by microenterprises. As a result, the following sections provide some insight and perspectives on reasons why microenterprises or entrepreneurs fail to pay back their loans to lenders. The focus however is on socioeconomic characteristics of borrowers since large strand of scholarship associates loan repayment to background characteristics of borrowers (Obamuyi, 2007; Abu et al, 2017; Midgley, 2014).

2.3 Conceptualizing Lending and Borrowing

This study draws from different literature in relation to how socioeconomic characteristics of borrowers affect repayment by microenterprises. It also looks at factors shaping lenders
preparedness to lend monies to microenterprises. For instance, Mwenje (2006) argued that lenders characteristics include their policies, attributes, objectives and work performances that govern the lending criteria. The conceptual model of lending agencies and individuals hinge on three distinctive elements known in the literature as: character, capacity and capital. According to Yunus (1999), the character dimension of lending looks at past records or obligations of borrowers with regards to loan repayment. In this regard, lenders are more likely to make funds available to loyal borrowers who pay back their loans on time or at any period prior to accessing further loans have cleared all outstanding loans. Capacity on the other hand denotes maximum amount of monies a borrower can handle in terms of repayment in addition to the interest. This element is very critical because some studies (e.g. Wongnaa and Awunyo-Vitor, 2013; Oke et al. 2007) show that huge loans attract corresponding huge interest and for that matter small businesses that contract huge loans are more likely to default, especially coupled with unfavourable business climate and vice versa. The third element which is capital is another key dimension of measuring loan size and determining possible repayment by borrowers. The underlying conceptual hypothesis is that businesses that have invested huge capital during business start-ups are more likely to pay back their loans in order to protect their investment while those that invest small capital are less likely to pay back their loans simply because they have nothing to protect. This underlying hypothesis to some extent has proven to be true (e.g. Chen, Hanson, and Stein, 2017; Mills and Brydon, 2014). For instance, an article published in the famous ‘wall street journal’ by Simon (2015) explored reasons why big banks no longer lend to small business and found that small business with small initial capital had about 87 percent chances of loan default simply because some took more loans than they actually required while
others took loans greater than they could actually manage and pay back as a result of their business size.

Although the application of this conceptual model among others greatly influence lenders decision as to who deserve a loan and the size of the loan, it is imperative to explore the characteristics of borrowers, especially in developing countries like Ghana where lenders, mostly microfinance institutions and financial non-governmental organisations (FNGOs) are chasing small businesses and poor individuals as well as groups with loans.

2.4 Approaches to Microfinance Delivery

The microfinance sector has two main approaches for microfinance delivery; namely financial systems approach and the poverty lending approach (Robinson, 2005).

2.4.1 The Financial System Approach

The financial systems approach emphasizes large-scale outreach to the economically active poor-both to borrowers who can repay microloans from households and enterprise income streams, and to savers. The financial systems approach focuses on institutional self-sufficiency because, given the scale of the demand for microfinance worldwide, this is the only possible means to meet widespread client demand for convenient, appropriate financial services. It also ensures institutional survival and appropriate return to stakeholders by providing highly valued, quality financial services (Yildirim, 2009).
2.4.2 The Poverty Lending Approach

The poverty lending approach concentrates on reducing poverty through credit, often provided together with complementary services such as skills training and the teaching of literacy and numeracy, health, nutrition, family planning, and the like. Under this approach donor and government-funded credit is provided to poor borrowers, typically at below-market interest rates. The goal is to reach the poor, especially the extremely poor - the poorest of the poor with credit to help overcome poverty and gain empowerment. This approach focuses on reaching the greatest possible number of the economically marginalised (especially women) both in the urban and rural areas. Except for mandatory savings required as a condition of receiving a loan, the mobilization of local savings is normally not a significant part of the poverty lending approach to microfinance used by Bangladesh’s Grameen Bank and some of its replicators in other countries (Midgley 2014).

One other dimension of lending approaches in the literature is the formal and informal lending. Writing on informal and formal financing of enterprises, Umuhire (2013) explains that informal lending approach has long emerged as the most preferable option of borrowing especially among the poor. Using the bandwagon effect, the author adds that many borrowers are able to contract loans through network of friends and relatives connected to local informal moneylenders. On the other hand Anderson and Malchor-Moller (2006) regard formal borrowing as those that concern with borrowing from financially established institutions where formal documentations with regards to loan conditions are well spelt out. In this form of lending approach, it is usual to find most educated people and entrepreneurs accessing loans compared with the rural poor and illiterate (Tang et al. 2010). According to Foltz (2004), interest rate charges on loans by formal financial institutions are externally regulated such that borrowers have no option to negotiate
cuts in interest amount charged on loans while in the informal lending sector borrowers enjoy some liberty to negotiate and arrive at preferential interest. Given this broad dimensions of borrowing, it is not clear from where the sample of this study borrow their money and hence the need for the analysis of data to include the various sources of borrowing.

2.5 Characteristics of Borrowers

Unlike the three elements characterizing lending organisations, borrowers have diverse characteristics that influence their repayment of loans. This section therefore discusses findings related to the socioeconomic characteristics of borrowers based on empirical findings. The characteristics will include age of the borrower, gender, educational status household size and so forth.

2.5.1 Age and Loan Repayment

Age of the borrower as a determinant of loan repayment is expected to influence loan repayment. Godquin (2004) used a quasi-experimental survey data to estimate age group homogeneity as a factor for loan repayment. The study postulate based on literature that age has a positive and significant effect on loan performance. However, findings based on their model estimation revealed otherwise. The study shows that although age relates significantly with loan performance, the relationship between age and loan repayment was negative. This means that not in all circumstances are older people more likely to repay their loans. The assumption is that, older people may have much experience in terms of loan management and therefore are most likely to repay their loans compared with younger borrowers. Similar study by Kiliswa and
Bayat (2014) found collaborating evidence. For instance, the study estimated the determinants of loan repayment in small scale enterprises in Kenya. Questionnaires were used to collect data from 50 randomly selected respondents. Descriptive statistics was used to analyse the effect of socioeconomic characteristics of the borrowers on loan repayment. They found that young people are more likely to repay their outstanding loans compared to older people. This implies age has an inverse relationship on loan repayment. Eze and Ibekwe (2007) in their study on the determinants of loan repayment under the indigenous financial system in Imo State in Nigeria, 10 farmers who borrowed from indigenous financial institutions were randomly selected from 3 indigenous financial institutions. Interview schedules, questionnaires and personal observation were used in collecting primary data. Descriptive statistics and multiple regression analysis were used to analyse the data. They found that age had a significant relationship with loan performance. They concluded that younger people being in the productive age group are able to work harder to repay their outstanding loans as compared to the older ones.

On the contrary, a study conducted by Acquah and Addo (2011) to investigate the factors influencing loan repayment performance of fishermen in Ghana, a survey of 67 fishermen were randomly selected using a standard questionnaire and interviews. Descriptive statistics and multiple regression analysis were used to analyse the data collected. They found no significant relationship between age and loan performance. In addition, work done by Arene (1993) revealed that age of farmers contributed positively to the credit worthiness of farmers. Oladeebo and Oladeebo (2008) studied socioeconomic factors influencing loan repayment among small scale farmers in Ogbomoso agricultural zone of Oyo State in Nigeria. One hundred farmers from 10 villages were selected by using multistage random sampling technique. Structured questionnaire was used for the data collection. The data was analyzed using descriptive statistics
and ordinary least squares multiple regression analysis (OLS). The study found that contrary to a priori expectation, age of farmers had negative and significant influence on loan repayment. The thrust of these contrasting empirical findings lead to no definite conclusion on how age of business owners particularly microenterprises affect loan repayment in the Greater Accra region.

2.5.2 Gender and Loan Repayment

Many MFIs target exclusively women. It is believed that women are more likely to invest loans in industrious activities or improve the welfare of their families more often than men. Nobel Prize committee highlighted the role of microcredit in women liberation (Norwegian Nobel Committee, 2006). Morduch (1999) argues that one of the main reasons for the success of microfinance in the public eye is because they target women. Women are more restricted in their access to finance and control over land (Agarwal 1994) and capital (Fletschner 2009); however, growth in the numbers of women in self-employment and entrepreneurial activities explains increased demand for microcredit (Morduch 2005).

Moreover, women are more likely to pay the high interest rates required by lenders since they are more restricted in their access to the formal labour market (Emran et al. 2006). Sharma and Zeller (1997) reported that credit groups with higher percentage of women had significantly better repayment rates. However, a study carried out by Godquin (2004) finds positive correlation between gender and loan repayment. Conversely, similar study reporting from four microfinance programs in the United States by Bhatt and Tang (2002) found that gender was not a significant determinant for loan repayment. A study in Ethiopia by Brehanu and Fufa (2008) reported similar conclusions. Work done by Kiliswa and Bayat (2014) on the determinants of
loan repayment in small scale enterprises in Kenya revealed that female borrowers have high loan repayment rates as compared to male borrowers indicating an inverse relationship between gender and loan repayment. In addition, a study conducted in Addis Ababa by Addisu (2006), analysed data collected for the using multinomial logit technique found that gender had a significant effect on loan repayment, and further revealed that loan delinquency and default rates are lower among females than males. Midgley (2014) made similar conclusion but associated inability of men to repay their loans to perpetual habit of drinking, womanizing and polygamous marriages. According to him, men with multiple sexual partners coupled with the habit of alcoholism and smoking are less likely to pay back their loans compared with men who do not engage in such behaviours. Comparatively, more women do not engage in such acts and are therefore more likely to pay back their loans.

2.5.3 Household Size and Loan Repayment

According to Moser (1993), household size is the total number of people living together in one house. Work done by Eze and Ibekwe (2007) in Imo State in Nigeria found out that household had a negative relationship with loan repayment but statistically significant at 5 percent level of significance. The results revealed that larger household size will lead to diversion of loans to feeding and maintenance of large households which in turn affects loan performance negatively leading to loan defaults. Tundui and Tundui (2013) in their study which examined the sources and determinants of loan repayment among women microcredit clients in Tanzania surveyed a random sample of 286 business owners. Logistic regression was used for the data analysis. They observed that household size had a negative impact on loan repayment based on their sample.
The results revealed that large household sizes increase household consumption, health and education expenditures. The borrower can also use part of the loan for unintended purposes for the upkeep of the family which in turn will lead to loan repayment problems.

2.5.4 Education and Loan Repayment

Addisu (2006) in his study found that increase in educational level decreases the risk of loan default. The study revealed that borrowers with college or vocational diplomas are most likely to repay their loans. Bhatt and Tang (2002) found that loan repayment increases with the level of education. A study conducted to identify the determinants of loan repayment in small scale enterprises in Kenya by Kiliswa and Bayat (2014) also revealed a positive relationship between level of education and loan repayment. Eze and Ibekwe (2007) observed that level of education is negatively related to outstanding loans which implies that the higher educational level of the borrower, the more their ability to repay their loans.

2.6 Loan Conditions on Repayment

Loan conditions refer to the rules and regulations as well as sanctions governing the loan disbursement and repayment processes. This is measured in terms of loan amount, interest rate, collateral, purpose of loan, amount of savings and loan duration for non-repayment. The loan conditions are expected to have an influence on repayment.
2.6.1 Interest Rate and Loan Repayment

Interest rate can be defined as the amount of money paid by borrowers for using borrowed funds, stated as a percentage of the amount borrowed (Ledgerwood, 1999). The general belief is that higher interest rate often compounds the problem of loan repayment mainly because it increases the amount of money owed to lenders. Eze and Ibekwe (2007) in their study found that the interest rate paid on loans is negatively related to loan repayment suggesting an increase in the interest rates leads to high default rates. Kohansal and Mansoori (2009) investigated factors affecting loan repayment performance of farmers in Khorasan-Razavi Province of Iran. The research was done using the cross-sectional survey design. Data was collected from 175 farmers who were simple randomly selected. Structured questionnaire were used for the data collection. Data was analysed using logit model. The authors found that loan interest rate had negative and significant effect on repayment performance of borrowers. The study concluded that loan interest rate is the most important factor that should be taken into consideration when lending to farmers.

However, Afolabi (2010) in his study to analyse loan repayment among small scale farmers in Oyo State in Nigeria quantitatively determined some socioeconomic characteristics of farmers that influence their level of loan repayments. Two hundred and eighty six respondents were selected by means of multi-stage. Descriptive statistics was used to analyse the socio-economic characteristics of the respondents while multiple regression using ordinary least square (OLS) was used to quantitatively determine the socioeconomic characteristics that influence the level of loan repayment among small scale farmers in the study area. The study found that an increase in interest rate paid on loans increases the level of loan repayment. Other studies in Ghana (e.g. Wognaa and Vicor 2013; Agbeko, 2009) found evidence in support of existing literature that interest rate do not only serve as a disincentive to loan repayment but also limit the amount
required by borrowers which in most cases goes to affect business expansion and consequently profit making by microenterprises. However, it is imperative that given the dynamic nature of human beings, further investigation into how interest rate affect loan repayment among microenterprises in the study area will help inform government decision as to ways to encourage the growth of microenterprises in Ghana.

2.6.2 Loan Size and Repayment

Tundui and Tundui (2013) in their study found that as loan size increases, borrowers are more likely not to repay their loans indicating a positive relationship between loan size and repayment. Eze and Ibekwe (2007) in their study also found a positive relationship between loan size and repayment. In contrast, Roslan and Mohd-Zaini (2009) observed that borrowers with larger loans, those who were involved in the service sector and attended training in areas related to their businesses were found to have low default rates.

2.6.3 Savings and Repayment

Savings which is a determinant of loan repayment is held as a security to the loans disbursed. Financial institutions use these savings to cover unpaid loans. According to Schreiner (2000) there is a positive correlation between deposit worth of an MFI and interest rate, minimum balance, convenience and repayment performance.
2.6.4 Loan Collateral and Repayment

Studies have found some relationship between loan collateral and loan repayment (e.g. Oludayo 2015; Gebeyehu, 2002). For instance, Oludayo did a comparative analysis of loan repayment determinants among enterprise borrowers from two different banks in south-south Nigeria. Their findings indicated that banks which offered credit to borrowers on condition of collateral experienced lower default rate of 15, 8, and 3 percent for small, medium and large scale enterprises whereas banks which offered loans without collateral experienced default rate of 28, 21 and 19 percent respectively. Similarly, Pasha and Negese (2014) observed based on their study in Ethiopia that lack of collateral requirement among group lenders accounted for their high default rate compared with individual loaners who offered collateral to access loans. The general argument has been also that where the value of collateral exceeds the amount of loan borrowed, the probability of loan repayment is very high but at the same time, such high valued collateral discourages the small enterprises from accessing credit (e.g. Gebahehu, 2002). This study therefore seeks to access how loan collateral influences loan repayment among microenterprises in the Greater Accra region in order to inform credit institutions and prospective microenterprise borrowers on the likely outcome of their loan repayment should they consider loaning for their enterprises.

2.6.5 Purpose of Loan and Loan Repayment

Very limited studies have estimated the relationship between loan purpose and repayment. The few studies that have attempted some explanations of the relationship also employed simple descriptive statistics. For instance, Pasha and Negese (2014), used descriptive statistics to
analyse the relationship between loan purpose and repayment. They found that those who borrowed to expand existing businesses have relatively higher default rates compared with those who borrowed to startup a business. This study therefore seeks to find out how loan repayment relates with different purposes of loans, especially loan for agriculture and trade related purposes.

2.7 Theoretical and Conceptual Review

The conceptual underpinnings of this study are drawn from the literature. For instance, Godquin (2004) employed rational econometric model to explain three distinctive stages of borrowing and lending. The author posit that in stage one of every borrowing and lending process, borrowers will always apply for loan taking into consideration their business environment and possibility of repayment. In stage two, lenders will always allocate loans to borrowers who exhibit high probability of repayment. The rationale for this consideration is simple. There is competition in the money market coupled with fraudsters ready to do anything to access loans without due regards to repayment conditions. However, in the case of lenders, repayment of loans with attendant preferential interest strengthens business growth. In stage three, loyal borrowers do everything possible to repay their loans and the accumulated interest whereas disloyal borrowers do otherwise. These stages lend support to the general hypothesis that all things being equal, not all borrowers will pay back their loans. In order to test this hypothesis, studies have used different econometric models including probit and logit estimations to find out factors influencing loan repayment (e.g. Asante, Sefa and Sarpong, 2011; Arene, 1993; Wongnaa & Victor, 2013).
Writing on informal rural financing in India, Bounman (1989) developed a conceptual model for studying borrowers’ behaviour towards repayment. He posits that loyal borrowers will prefer to repay their loans on time in order to avoid the consequences of non-payment of loans. However, it is difficult to determine who a loyal borrower is and as a result different authors have proposed the use of socioeconomic characteristics of borrowers and loan conditions to estimate loan repayment performances. The conceptual framework for this study explains the socioeconomic characteristics and loan conditions discussed above and how they lead to loan default or payment (Figure 2.1). The framework classifies the factors influencing loan performance into endogenous and exogenous factors. It posits that in the case of loyal borrowers both exogenous and endogenous factors will have positive influence on loan performance. The underlying assumption for this expectation is that loyal borrowers always take into consideration the cost-benefit of their actions including demand for credit for establishment of microenterprise and for that matter they are always careful in order not to disappoint lenders who always support their businesses financially. Based on this assumption, factors such as loan size and interest on loans will have insignificant effect on loan repayment.
In the case of disloyal borrowers, probability of loan default is very high because of the probability of using the loan for unintended purpose. In such situations Bouman (1989) note that
both exogenous and endogenous factors may combine somehow to affect repayment and consequently could lead to collapse of the business.

While the above discussion may be true to some extent, other authors have attempted varied explanation as to why both loyal and disloyal borrowers may become victims of loan default. As indicated earlier, empirical studies suggest that older people regardless of their loyalty may have less strength to manage their business productively and therefore could become victims of loan default. In the case of exogenous factors, Godquin (2004) and Belay (2002) argue that factors such as business climate and interest rate, and loan size affect both loyal and disloyal borrowers equally and that the only difference is perhaps the relationship between endogenous factors such as age differences, business experience, gender and household size. The authors argue further that the endogenous factors are thus paramount determinants of loan repayment and default although sometimes exogenous variables could be limiting factors.

In this study, some modifications in the original framework were necessary. The exogenous factors considered for the study are based on available data because the study employed secondary data for the estimation of variables influencing loan repayment. These variables include purpose for which the loan was taken, loan collateral, interest rate and so forth. As indicated earlier in the literature, these variables are believed to have diverse influence on loan repayment outcomes and for that matter they will be captured in the model estimation to find out which of them has significant influence on repayment among microenterprises in the Greater Accra Region with special focus on La Nkwantanang-Madina Municipality.
2.8 Summary of Literature Review

The chapter reviewed literature underpinning the study, including the socioeconomic factors and loan conditions associated with loan repayment. From the literature, it was found that in order to avoid the tendency of non-repayment, banks and other financial institutions interested in lending monies to microenterprises should consider the socioeconomic factors and loan conditions necessary to guide their decision making. However, studies in Ghana have largely concentrated on determinants of SMEs loan repayment at the aggregate level. This study therefore addresses this issue using microenterprises in Madina municipality in Ghana as a case study.
CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter discusses the profile of the study area, the research methods, sources of data, and the sample design used, the categorization and description of the dependent variables and the independent variables, the study instruments, the methods for data analysis and the analytical framework.

3.2 Profile of the Study Area

3.2.1 Location and Size

Figure 3.1 shows the map of Greater Accra. The region is the smallest of the 10 administrative regions in terms of landmass covering a total surface area of about 4,450km.sq. In terms of spatial interaction, it is centrally located within the coastal belt of Ghana and shares boundaries with the Eastern Region to the north, Central Region to the west and Volta Region to the east. To the south of the region lies the Gulf of Guinea which span 220km coastline stretching from Langma near Kasoa in the west to Ada in the east (Ghana Statistical Service, 2013).

Madina is the municipal capital of the La Nkwantanang-Madina Municipality. It is located in the Greater Accra Region. The municipality shares boundary with the Accra Metropolitan Assembly to the south, Adenta Municipality to the east, and the Ga East Municipality and Akwapem South District to the west and north respectively (see Figure 3.2) (Ghana Statistical Service, 2013).
Figure 3.1: Map of Greater Accra Region

Source: Ghana Statistical Service (2013)
Figure 3.2: Map of La Nkwantanang-Madina Municipality showing Study Area

Source: Ghana Statistical Service (2013)
3.2.2 Population Growth

Greater Accra Region is estimated to have a population of about 4,010,054, a population density of 1,235.8 persons per square kilometers. According to the Ghana population and housing census, 2010, Greater Accra had a sex ratio of 93.6 in 2010, which means there are about 94 males to every 100 females in the region and this could be attributed to male migration and higher life expectancy at birth for females. Similarly, it accounts for the largest proportion of urban dwellers (90.5%) in all the ten administrative regions of the country. In terms of locality, sex differentials, there is a higher proportion of females than males in both urban (51.7% versus 48.3%) and rural (50.9% versus 49.1%) dwellers in the region (GSS, 2013).

According to the 2010 Population and Housing Census, the population of the La Nkwantanang – Madina Municipality is 111,926 representing 2.8 percent of the region’s total population. Females constitute 51.5 percent and males represent 48.5 percent, the municipality has a sex ratio of 94.1(Ghana Statistical Service, 2013)

3.2.3 Administration

The region is divided into sixteen Municipalities namely; Accra Metropolitan Assembly, Tema Metropolitan Assembly, Ga South Municipal Assembly, Ga East Municipal Assembly, Ga West Municipal Assembly, Ashaiman Municipal Assembly, Adentan Municipal Assembly, Ledzokuku-Krowoh Municipal Assembly, Dangme West District Assembly, Dangme East District Assembly, Ga Central Municipal Assembly, La Dade Kotopon, La Nkwantanang-Madina Municipality, Kpone Katamanso District, Ada West District and Ningo Prampram District.
3.2.4 Education

The Greater Accra Region has a very low rate of people who have ever attended school. This is evident in the 2010 Population and Housing Census which showed that one in every ten people (3 years and above) who lives in the Greater Accra Region has never attended school. Among those who have ever attended school, those who have basic education (52.6%) had the highest proportion, followed by those with secondary education (15.7%) and tertiary (5.1%) education. In terms of gender differentials, females had the highest proportion of those who have ever attended school compared with males (13.4% and 6.5% respectively), although males have a higher proportion of those with higher levels of education than females. Similarly, the rural localities have the highest proportion of those who have never attended school (19.5%) as compared with urban localities (9.1%) (GSS, 2013).

The population of the study area (La Nkwantanang-Madina Municipality) show that one in every ten people (11 years and above), 91.3 percent are literate and 8.7 percent are non-literate. The proportion of literate males (95.4%) is higher compared to that of the females (87.5%). About 55.4 percent of the literate population indicated they could speak and write both English and Ghanaian languages (Ghana Statistical Service, 2013).

3.2.5 Economic Activity

A population of 1,945,284 persons aged 15 years and older, 1,377,803 or 70.8% are economically active in the region, 82.6% of the economically active population have worked, 4.0% have jobs but do not work and 13.4% are unemployed. 42.0% of the economically active population engages in sales and service occupation while professional, technical and related
workers comprise 10.8%. More than half of the economically active population in the region is self-employed with employees, while a third (32.6%) are employees. The private informal sector of the region constitutes 69.1% and 55.8% of females and males respectively (GSS, 2013).

About seventy percent of the population 15 years and older in the La Nkwantanang- Madina Municipality are economically active while 31.1 per cent are economically not active. Of the economically active population, 92.3 percent are employed while 7.7 percent are unemployed. For those who are economically not active, more than half (56.7%) are students, while almost a quarter (24.9%) performing household duties and 3.7 percent are disabled or too sick to work. About six out of ten unemployed are seeking work for the first time (Ghana Statistical Service, 2013).

### 3.3 Research Design

In a bid to achieve best results, the researcher used triangulation – the combination of both quantitative and qualitative methods of data collection to increase the reliability and validity of results (see e.g. Flick, 1992). Emphasis was placed on quantitative methods; however qualitative methods were also employed to supplement the former approach. The study was in three phases; exploratory study was first used in identifying the research topic, followed by the use of secondary quantitative data and primary qualitative data.

### 3.4 Exploratory Study

In order to situate the study in its spatial scope, the researcher had to explore the La Nkwantanang-Madina Municipality where microenterprises have sprung up due to the growth
and expansion of the Municipal Market known in Ghana as the Madina Market. The explorative study was however a part of study workshop organised by the Institute of Statistical, Social and Economic Research (ISSER) in collaboration with the Madina Municipal Authorities to enable students identify research problems for their dissertation. An engagement with the planning officer of the municipal office revealed a growing number of microenterprises in the municipality. As a result, the researcher contacted few microenterprises in the Municipality to understand their plights which led to finalisation of this research problem and objectives.

3.5 Sources of Data, Sample Size Determination and Data Analysis for the Quantitative Study

The data for the study is partly from a Socioeconomic Panel Household Survey data set conducted in 2014 by the Economic Growth Center (EGC) at Yale University and the Institute of Statistical, Social and Economic Research (ISSER) at the University of Ghana and data from the field. The EGC-ISSER socioeconomic panel household survey data were used in this study to analyze the factors influencing loan repayment among microenterprises in the Greater Accra Region.

A total of 5,009 households were selected from 334 enumeration areas across the country using a two-staged stratified sampling design. This sampling procedure was to ensure that a representative sample households with access to credit and debt holdings in Ghana had been selected for the survey.
Table 3.1 provides a summary statistics of the sample size selected from the Greater Accra region, other regions, Ghana as a whole and from households with microenterprises. It indicates that in the Greater Accra region, 169 debt holdings are compared with 2070 debt holdings for Ghana and 961 debt holdings for households with enterprises were selected for the survey.

Table 3.1: Summary Statistic of Sample Size

<table>
<thead>
<tr>
<th></th>
<th>Number of Households with Debts</th>
<th>Number of Debt Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Accra Region</td>
<td>144</td>
<td>169</td>
</tr>
<tr>
<td>Other Regions</td>
<td>1420</td>
<td>1901</td>
</tr>
<tr>
<td>Ghana</td>
<td>1564</td>
<td>2070</td>
</tr>
<tr>
<td>Households with</td>
<td>678</td>
<td>961</td>
</tr>
<tr>
<td>Microenterprises</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

3.6 Definition of Variables for the Quantitative Study

The variables from the data for this study were extracted from various sections of the questionnaire of the Ghana Socioeconomic Panel Survey (2014). These sections include the background information section, financial asset section where the borrowing aspect is found and the non-farm enterprise section. The variables capture information at different levels of the respondents. Some are on the conditions of the loan contracted, some on the characteristics of the individuals who got the loans, some are household level variables and the others are community level variables.

3.6.1 Dependent Variable

Proportion of total indebtedness paid is the dependent variable for the study. This refers to whether the borrower has paid their loans to the lending institution or not. Proportion of total
indebtedness paid is the amount paid divided by the sum of the principal and interest amount charged. It ranges between zero and one in the sense that zero means no part of the loan has been paid and one means the indebtedness has been cleared.

### 3.6.2 Independent Variables

The explanatory variables used in this study are gender, age, household size, level of education, interest rate, savings, collateral, loan duration, source of loan, loan size and purpose of loan.

Gender is a dummy variable which denotes the sex of borrowers and it is given as 1= male and 0= female, age is a categorical variable which denotes the age of borrowers and it is given as 1= youths thus, borrowers who reported as being between the ages of 15 and 35 years, 2= middle age representing borrowers who reported as being between the ages of 36 and 60, 3= aged, thus, borrowers who reported as being 61 years and above.

Level of education is also a categorical variable which denotes the educational level of the borrowers and it is given as 0= borrowers with no formal education and 1, 2, 3 and 4 are borrowers with basic, secondary, tertiary and others respectively.

Household size is a continuous variable which denotes the number of people living in a household.

Savings is a continuous variable which denotes the total amount the borrowers have saved.

Interest Rate is a continuous variable which denotes the percentage of interest charged on loans.

Loan Size is a continuous variable which denotes the amount of loan given to borrowers.

Purpose of loan is a categorical variable which denotes the purpose for which the loan was taken and it is given as 1= agricultural purposes, 2= business, 3= housing, 4= education, 5= health, 6= ceremonies, 7= vehicle, 8= other consumer goods and 9= others.
Source of Loan is a categorical variable which denotes the source from which the loan was contracted and it is given as 1= formal, 2= informal and 3= others.

Collateral is a categorical variable which denotes the collateral as a repayment security and it is given as 1= none and 2= yes.

Loan Duration is a continuous variable which denotes the period for which the loan is to be paid.

3.7 Methods of Quantitative Data Analysis

The study sought to analyze the factors influencing loan repayment among microenterprises. The data was analyzed using descriptive statistics and chi-square tests to examine whether or not there is any difference between Greater Accra and other regions. Also, a fractional logit regression model was employed for the analysis using the Stata14 statistical software package. This model is chosen because the dependent variable is a proportion that is greater than or equal to 0 and less than or equal to 1. These models are often used for outcomes such as rates, proportions and fractional data (StataCorp., 2015).

Table 3.2 provides a summary of the methods used for quantitative data analysis.
Table 3. 2: Summary of Quantitative Data Analysis

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Type of Data/Method of analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To estimate the proportion of households with debt holdings in the Greater Accra region.</td>
<td>Quantitative data from the Ghana Socioeconomic Panel Data Survey, 2014 was used to estimate the percentage of households with debt holdings.</td>
</tr>
<tr>
<td>2. To estimate the socioeconomic factors influencing loan repayment among microenterprises in the Greater Accra region.</td>
<td>Quantitative data from the Ghana Socioeconomic Panel Data Survey, 2014 was used for the fractional logit estimation of the effect of socioeconomic factors influencing loan repayment.</td>
</tr>
<tr>
<td>3. To ascertain the effect of loan conditions on loan repayment in the Greater Accra region.</td>
<td>Quantitative data from the Ghana Socioeconomic Panel Data Survey, 2014 was used for the fractional logit estimation of the effect of loan conditions factors influencing loan repayment.</td>
</tr>
</tbody>
</table>

3.7.1 Analytical Framework

Fractional Logit Approach is the analytical framework used to estimate the factors influencing loan repayment among microenterprises.

In modeling the factors affecting loan repayment, the fractional logit model for the study is denoted as:

Equation (1)

\[ \log \left( \frac{p_1}{1-p_1} \right) = \beta_0 + \beta_1 X_i + \epsilon_i \]  
(Wooldridge, 2010)
Where \( P= \) Proportion of total indebtedness paid, \( \beta_0 \) denotes the intercept parameter, the \( x_{it} \) s denotes the explanatory variables, \( \beta_1 \) denotes the coefficients to be estimated, which is interpreted as the log odds of loan repayment and \( \varepsilon_{it} \) is the error term.

From equation (1), the model specification for the estimation can be written as;

\[
\log\left(\frac{P_{1}}{1-P_{1}}\right) = \beta_0 + \beta_1 GENDER + \beta_2 AGE + \beta_3 EDUC + \beta_4 HH_SIZE + \beta_5 SAVINGS + \beta_6 LOAN_DUR + \\
\beta_7 INT + \beta_8 S_LOAN + \beta_9 COLLATERAL + \beta_{10} PURP_LOAN + \beta_{11} LOAN_SIZE + \beta_{12} ACCRA + \\
\beta_{12} HH_ME + \varepsilon_i
\]

Where,

**GENDER** is denoted by the gender of respondents

**AGE** denotes the age of client

**EDUC** is denoted as the level of educational qualification attained by the clients ranging from never been to school, primary level, middle/JSS level to secondary and above.

**HH_SIZE** denotes the household size, the number of people in the household

**SAVINGS** denotes the amount of savings

**INT** denotes interest rate, the percentage of interest charged on loans

**LOAN_SIZE** denotes the amount of loan given to borrowers

**LOAN_DUR** denotes the loan duration, the period for which the loan is to be paid

**PURP_LOAN** denotes the purpose of the loan, the purpose for which the loan was contracted

**S_LOAN** denotes the source of loan, the source from which the loan was contracted

**COLLATERAL** denotes collateral, repayment security

**ACCRA** denotes Greater Accra Region

**HH_ME** denotes households with microenterprises
For the purpose of this study, three models were applicable; a model for the whole of Ghana, a model for Greater Accra Region and a model for households with microenterprises.

Table 3.3 provides a summary of the expectation from the relationship of the variables mentioned in the model specification with loan repayment.

**Table 3.3: Summary of Expectation from Model Estimation of Factors Influencing Loan Repayment**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Position of literature on how variables relate with loan repayment.</th>
<th>Source</th>
<th>Expectation from the model estimation based on study hypotheses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Significant relationship (+).</td>
<td>Eze and Ibekwe (2007);</td>
<td>No significant relationship</td>
</tr>
<tr>
<td>Gender</td>
<td>Significant relationship (±).</td>
<td>Kiliswa and Bayat (2014).</td>
<td>No significant relationship</td>
</tr>
<tr>
<td>Household size</td>
<td>Significant relationship (-).</td>
<td>Tundui and Tundui (2013)</td>
<td>No significant relationship</td>
</tr>
<tr>
<td>Loan duration</td>
<td>None</td>
<td>Gap in literature</td>
<td>No significant relationship</td>
</tr>
<tr>
<td>Loan interest</td>
<td>Significant relationship (±).</td>
<td>Kohansal and Mansoori (2009); Afolabi (2010)</td>
<td>No significant relationship</td>
</tr>
<tr>
<td>Collateral</td>
<td>Significant relationship (+).</td>
<td>Oludayo 2015; Gebeyehu, 2002</td>
<td>No significant relationship</td>
</tr>
<tr>
<td>Source of loan</td>
<td>None</td>
<td>Gap in literature</td>
<td>No significant relationship</td>
</tr>
</tbody>
</table>
### Purpose of loan

<table>
<thead>
<tr>
<th>Purpose of loan</th>
<th>Significant relationship (-)</th>
<th>Pasha and Negese (2014)</th>
<th>No significant relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>Significant relationship (+)</td>
<td>Schreiner (2000)</td>
<td>No significant relationship</td>
</tr>
</tbody>
</table>

### 3.8 Data Collection Instrument for Qualitative Data

In-depth interviews were used in the study to solicit for information to explain the results of the secondary data. Qualitative research is used in the study to allow the researcher to get at the inner experience of respondents. The in-depth interviews were conducted to elicit information on the factors influencing loan repayment in the La Nkwantanang-Madina Municipality. The respondents for the in-depth interview were purposively selected. Six (6) respondents were interviewed from the municipality: 3 males and 3 females. The selected respondents were located in the central business district of the municipality that is the Madina market. The respondents selected engaged in diverse businesses (secondhand clothes dealer, dealer in phone accessories, etc.). Almost all the respondents were sole proprietors of their businesses. Three out of the six respondents had employees ranging between 2 and 6. The responses were recorded using a digital device.

#### 3.8.1 Transcription

The process of data analysis begun by transcribing the information on the device verbatim by the researcher. This was done using direct quotations where necessary while others were paraphrased to reflect the discussion and views expressed by the respondents.
CHAPTER FOUR

RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents result and discussion of a nationally representative data obtained from the Ghana Socioeconomic Panel Survey conducted in 2014 and in relation to loan repayment and proportion of households with debt holdings in Ghana with specific focus on the Greater Accra region. This study uses the second and last waive data available because it contains information on loan conditions which the first waive datasets do not. The chapter is organised into four main sections beginning with a description of respondents’ background data such as their age, sex, and educational level, followed by the estimation of households with debt holdings and proportion of loans repaid among respondents, analysis of socioeconomic factors associated with loan repayment and ascertaining the effect of loan conditions on loan repayment. Given the broad coverage of the data used, the analysis compares result from Greater Accra region with the remaining nine administrative regions of Ghana on the objectives of the study. A separate analysis is also presented for only households with microenterprises to reflect the peculiar condition of this sub-group with respect to experiences of loan repayment.

4.2 Characteristics of Respondents.

4.2.1 Gender Distribution of Respondents

Based on the sample, the sex distribution of respondents showed that the female respondents in the Greater Accra and other regions constituted about 10 (10.1%) and 3 (2.5%) percentage point
less compared with their male counterparts respectively. The disaggregated data shows an approximate male to female sex ratios of 3:2 in the Greater Accra region and 1:1 in the remaining regions (Table 4.1). Further analysis revealed no statistically significant difference in the overall sex distribution of respondents for the study in Greater Accra as compared to the others in the other region.

Table 4.1: Gender of Borrowers by Region

<table>
<thead>
<tr>
<th>Gender</th>
<th>Greater Accra</th>
<th>Other Regions</th>
<th>$X^2$ Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>44.97</td>
<td>48.74</td>
<td>$X^2=0.8815$</td>
</tr>
<tr>
<td>Male</td>
<td>55.03</td>
<td>51.26</td>
<td>P=0.348</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1,900</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

4.2.2 Age Distribution of Respondents

Age of borrowers has been empirically found to have negative effect on loan repayment (Godquin, 2004; Kiliswa and Bayat, 2014). This implies that the more people age in years, the less likely they are to repay their loans. For instance, Acquah and Addo (2011) maintained that younger people are more productive and thus work harder to repay their loans compared with the old. To this end, it was important to analyse the age distribution of respondents. The findings show that in the Greater Accra region, respondents aged 36-60 years old constituted about 63 percent compared with about 58 percent for their counterparts in the remaining regions of Ghana.
However, those aged 61 years and above were about 4 percentage point less in Greater Accra region than those in the remaining regions of Ghana. Nonetheless, the disaggregated data show no significant difference in the age distribution of respondents by region of residence (Table 4.2).

### Table 4.2: Age of Borrowers by Region

<table>
<thead>
<tr>
<th>Age (Years)</th>
<th>Greater Accra Reg.</th>
<th>Other Regions</th>
<th>$X^2$ Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-35</td>
<td>29.59</td>
<td>30.47</td>
<td></td>
</tr>
<tr>
<td>36-60</td>
<td>63.31</td>
<td>58.47</td>
<td>$X^2=2.9169$</td>
</tr>
<tr>
<td>61+</td>
<td>7.1</td>
<td>11.05</td>
<td>P=0.233</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1900</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014*

### 4.2.3 Educational Level of Respondent

Different studies have found counter results in relation to how educational level of people relates with their loan repayment and default (e.g. Bhatt and Tang, 2002; Addisu, 2006; Eze & Ibekwe, 2007). It was therefore imperative to ascertain the level of education of respondents. The findings based on the sample show that the proportion of borrowers with no formal education experience in the Greater Accra region constituted about 25 percentage point less than their counterparts in the remaining nine regions of Ghana. Also, there were relatively more borrowers with tertiary education qualification in the Greater Accra region than in the remaining nine regions of Ghana.
Further analysis of the data shows a statistically significant difference $X^2 (57.814; p= 0.000)$ in the distribution of educational qualification of borrowers between Greater Accra and the other regions of Ghana.

Table 4.3: Educational Level of Borrowers by Region

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>Greater Accra</th>
<th>Other Regions</th>
<th>$X^2$ Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>28.4</td>
<td>53.76</td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>40.83</td>
<td>29.62</td>
<td>$X^2=57.8514$</td>
</tr>
<tr>
<td>Secondary</td>
<td>17.16</td>
<td>7.47</td>
<td>$P=0.000$</td>
</tr>
<tr>
<td>Tertiary</td>
<td>11.24</td>
<td>8.84</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>2.37</td>
<td>0.32</td>
<td></td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1,901</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

4.2.4 Percentage Distribution of Microenterprise Owners

It was important to assess ownership of microenterprises among respondents based on the thematic scope of the study. The distribution in Table 4.4 indicate that in relative terms, the Greater Accra region had more respondents as microenterprise owners compared with respondents in the remaining regions. For instance, it shows that about 52 percent compared with about 46 percent of the respondents in the Greater Accra region and the remaining regions owned microenterprises respectively.
Table 4. 4: Distribution of Microenterprise Ownership by Region

<table>
<thead>
<tr>
<th>Own Microenterprise</th>
<th>Greater Accra</th>
<th>Other Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52.07</td>
<td>45.92</td>
</tr>
<tr>
<td>No</td>
<td>47.93</td>
<td>54.08</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1,901</td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

4.2.5 Sources of Loan of Borrowers

According to Madestam (2014), informal money lenders are able to reach the majority of the poor who are often unable to meet the loan terms required by formal lending institutions such as the banks. This study therefore analysed the sources of loans of borrowers in order to find out how various sources of loans contributes to their access to credit in general. In both regions, the data show that informal lenders provided greater access to credit by borrowers compared with formal lenders. For instance, about 75 and 74 percent of respondents in both Greater Accra and other regions were affirmative that they obtained their loans from informal creditors. Statistically, the distribution shows no significant difference in the distribution of loan source by respondents in both regions (Table 4.5). The findings therefore corroborate with the assertion by Umuhire (2013) and Madestam (2014) that informal money lenders provide the greater proportion of borrowers with access to loans.
### Table 4.5: Sources of Loan of Borrowers by Region

<table>
<thead>
<tr>
<th>Sources of Loan</th>
<th>Greater Accra</th>
<th>Other Regions</th>
<th>X² Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>18.34</td>
<td>20.52</td>
<td>X²=0.7933</td>
</tr>
<tr>
<td>Informal</td>
<td>74.56</td>
<td>73.65</td>
<td>P=0.673</td>
</tr>
<tr>
<td>Others</td>
<td>7.1</td>
<td>5.84</td>
<td></td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1,901</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Author’s computation from Ghana Socioeconomic Panel Survey, 2014

#### 4.2.6 Use of Collateral as Repayment Security

As indicated in the literature, possession of collateral is often a means to securing access to loans, especially from formal creditors such as banks and other financial service institutions. The analysis of the data revealed that a significant proportion of borrowers/respondents had no collateral security at the time of the survey. Both regions recorded similar proportion in terms of the have- and have-not. The distribution, as presented in Table 4.6a also shows no statistically significant difference. The findings perhaps may explain reasons why the majority of respondents could not borrow from formal moneylending institutions who often demanded for collateral as a prerequisite for accessing loans. For instance, in Table 4.6b, the data show that in comparative terms the proportion of borrowers who loaned from formal creditors in the Greater Accra region without collateral security were about 39 percentage point less than their counterparts who borrowed from the informal creditors. In regions other than the Greater Accra, the proportion of borrowers without collateral who loaned from formal creditors were about 10 percentage point more compared with their counterparts in the Greater Accra region.
Table 4. 6a: Use of Collateral as Repayment Security by Region

<table>
<thead>
<tr>
<th>Collateral</th>
<th>Greater Accra</th>
<th>Other Regions</th>
<th>X² Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>88.17</td>
<td>87.74</td>
<td>X²=1.8441</td>
</tr>
<tr>
<td>Yes</td>
<td>11.83</td>
<td>12.26</td>
<td>P=0.933</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1,901</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

Table 4. 6b: Use of Collateral as Repayment Security by Source of Loan

<table>
<thead>
<tr>
<th>Greater Accra Region</th>
<th>Other Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Loan</td>
<td>Sources of Loan</td>
</tr>
<tr>
<td>Collateral</td>
<td>Formal</td>
</tr>
<tr>
<td>None</td>
<td>58.06</td>
</tr>
<tr>
<td>Yes</td>
<td>41.94</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

4.2.7 Purpose of Loan by Respondents

Loan purpose influences loan amount and the duration for repayment. It is obvious that the amount of money required for the purchase of car, building of a house and for establishment of new businesses will be higher compared with loan required for payment of medical bills, school
fees and perhaps for agriculture purposes. To this end, it was necessary to find out the various purposes for which borrowers go for loan. Table 4.7 shows about eight dimensions of loan purposes based on the sample. In the Greater Accra region, loan for business expansion and setup constituted about 43 percent of total loan sought by respondents. This was followed by loan for housing (12.4%), education/training (11.2%) while loan for agricultural purposes constituted the least (1.8%). In the other regions of Ghana, loan for business establishment and expansion represented the highest of about 29 percent, followed by loan for other consumables (17.1%), agricultural (13.7%), while loan for vehicles constituted the least of about 2.2 percent.

The disaggregated data show some statistically significant difference $X^2(51.8650; p = 0.000)$.

The distribution is also quite interesting in that, Greater Accra region which was expected to have significant proportion of borrowers going for car/vehicle loans rather had almost none with car loans: the decimals could have rounded the proportion to zero whereas other regions that was least expected recorded about 2 percent of vehicle loans. This was not surprising because the proportion of households with cars/vehicles in general is extremely low. In the case of loan for health purposes, the distribution was not much surprising due to the existence and coverage of Ghana’s National Health Insurance Scheme and for the fact that the scheme covers treatment cost for several illnesses in accredited health institutions across the country. Also, not surprising was the proportion of borrowers for agricultural purposes in the Greater Accra region. The region being the national capital is least noted for agriculture, hence the small proportion of borrowers for agricultural purposes.
Table 4.7: Purpose of Loan of Borrowers by Region

<table>
<thead>
<tr>
<th>Purpose of Loan</th>
<th>Greater Accra</th>
<th>Other Regions</th>
<th>X² Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Purposes</td>
<td>1.78</td>
<td>13.68</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>43.2</td>
<td>29.09</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>12.43</td>
<td>7.94</td>
<td></td>
</tr>
<tr>
<td>Education/ Training</td>
<td>11.24</td>
<td>11.89</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>4.14</td>
<td>7.63</td>
<td>X²=51.8650</td>
</tr>
<tr>
<td>Ceremonies</td>
<td>8.28</td>
<td>5.94</td>
<td>P=0.000</td>
</tr>
<tr>
<td>Vehicles</td>
<td>0</td>
<td>2.16</td>
<td></td>
</tr>
<tr>
<td>Other Consumer Goods</td>
<td>9.47</td>
<td>17.1</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>9.47</td>
<td>4.58</td>
<td></td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>169</td>
<td>1,901</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

4.2.8 Interest Rate Payment by Borrowers

Eze and Ibekwe (2007) argued that interest rate on loans has negative effect on loan repayment because higher interest rate increases the overall amount of money paid by borrowers to creditors and as a result leads to higher default rate. In view of this, respondents were asked to indicate whether or not they paid interest on their borrowed amount. The distribution indicates that in the Greater Accra region, the proportion of borrowers who paid interest on loans were about 21 percent and this was about 6 percentage point less their counterparts in the remaining regions of Ghana (Table 4.8).
Table 4.8: Distribution of Interest Rate Payment by Region of Respondents

<table>
<thead>
<tr>
<th>Pay Interest Rate</th>
<th>Greater Accra</th>
<th>Other Regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>21.47</td>
<td>27.89</td>
</tr>
<tr>
<td>No</td>
<td>78.53</td>
<td>72.11</td>
</tr>
<tr>
<td>Total %</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Sample Size (N)</td>
<td>163</td>
<td>1,750</td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

Further analysis of the data revealed that the proportion of borrowers from formal creditors who paid interest on loans were about 90 percent compared with about 10 percent of their counterparts who borrowed from informal creditors (Figure 4.1). The distribution show that comparatively less proportion of those who borrowed from informal creditors paid interest on their loans.

Figure 4.1: Distribution of Interest Rate Payment by Lending Type

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014
Table 4.9 shows based on the sample that the mean household size of borrowers in the Greater Accra region was about 2.7 and it was less than the figure observed in other regions. According to Tundui and Tundui (2013), household size has a negative effect on loan repayment due to diversion of loans for unintended purposes. The authors argued based on their findings from a randomised sample that higher household size tend to influence loan repayment negatively because borrowers, especially women used borrowed funds to cater for household needs and that delays repayment of loans and subsequently compounds the interest on loans.

Schreiner (2000) finds a positive relationship between savings and loan repayment. Frequency of savings are generally used by financial institutions as a means of tracking progress or financial performance of borrowers in order to determine whether or not borrowers could be trusted to pay back their loans on time. The general hypothesis derived from the literature has been that borrowers with much savings are less likely to default repayment of their loans, especially when the saved amount is almost equal to the amount borrowed. This study therefore sought to compare the accumulated savings by borrowers in both the Greater Accra region and other regions of Ghana. The finding shows a mean accumulated savings of GH₵ 629.22 for borrowers in the Greater Accra region and it was more compared with GH₵ 367.40 for the other regions (Table 4.9).

Further analysis shows some differences in the mean distribution of loan size between the Greater Accra region and other regions. For instance, while borrowers in the former recorded a loan size of GH₵ 2,162.98 those in the latter group records a mean loan size of 1,115.59 less of the Greater Accra region value. From the finding and based on the literature (e.g. Afolabi, 2010), it can be estimated that all things being equal, borrowers in the Greater Accra region will have
less default payment compared with those in the other regions. This is because, some studies (e.g. Afolabi 2010; Kiliswa and Bayat, 2014) found that the greater the loan size the higher the probability of loan repayment since the amount borrowed is often invested productively and diversified to yield proceeds on time. However, this conclusion is subject to further analysis based on the sample, period of survey and geographic settings of this study as presented in section 4.4.2.

Loan interest is an important variable considered in this study due to its influence on loan repayment by borrowers. However, the position of literature on how interest rate relate with loan repayment remain highly uncertain. Thus, different studies have found contrasting results (e.g. Kohansal and Mansoori, 2009; Afolabi, 2010). From the data, it was observed that borrowers in the Greater Accra region enjoyed relatively lower interest rate on loans compared with their counterparts in the remaining regions of Ghana. This may have occurred because comparatively, there were competitive accesses to credit in the Greater Accra region with each financial service provider more likely and willing to offer loans on preferential and less interest rate to borrowers compared with their counterparts in the remaining regions. Given such competitive financial market, borrowers were at liberty to choose from financial service providers that offered loans on relatively low interest rate. Nonetheless, it is not clear how the differences in interest rate on loans in both regions will play out on loan repayment and default among the sample unless subject to further inferential analysis will be done in the subsequent section.

A systemic review of the literature shows not much information on how loan duration affects loan repayment and default. This study however anticipated that loan duration as a condition for accessing loan will have a positive relationship on loan repayment. This general view is based on the time principle argument by Umohire (2013) that borrowers, when given enough time to
invest their loans are more likely to pay back their loans with the accumulated interest because they are able to save enough out of their investment and savings to refund the loans. Based on this argument, the study sought to find out the mean loan duration in years in order to include it in the model estimation for loan repayment in this study. The finding shows a mean loan duration of 3.7 for borrowers in the Greater Accra region and 4.8 for those in the remaining regions of Ghana (Table 4.9).

Table 4.9: Summary Statistics of Characteristics of Borrowers by Region

<table>
<thead>
<tr>
<th>Variables</th>
<th>GREATER ACCRA REGION</th>
<th>OTHER REGIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Obs</td>
<td>Mean</td>
</tr>
<tr>
<td>Household Size</td>
<td>169</td>
<td>2.69</td>
</tr>
<tr>
<td>Savings</td>
<td>169</td>
<td>629.22</td>
</tr>
<tr>
<td>Loan Size</td>
<td>163</td>
<td>2162.98</td>
</tr>
<tr>
<td>Interest (% &amp; Amt.)</td>
<td>163</td>
<td>23.72</td>
</tr>
<tr>
<td>Loan Duration</td>
<td>163</td>
<td>3.72</td>
</tr>
<tr>
<td>Proportion of Total</td>
<td>153</td>
<td>0.23</td>
</tr>
<tr>
<td>Indebtedness Paid</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014.

4.3 Proportion of Households with Debt Holdings

One of the objectives of this study was to estimate the proportion of households with debt holdings in the Greater Accra region. This was done by dividing the number of households with debts by the total number of households at the time of the survey. Drawing from the results in
Table 4.10, it can be seen that in the Greater Accra region the proportion of households with debt holdings was 26.8 percent as at the time of the survey.

However, the proportion of households with debt holdings in other regions, Ghana as a whole and households with microenterprises were found to be 33.5, 32.8 and 36.5 percent respectively.

This implies that the proportion of households with debts in the Greater Accra region is less as compared to other regions, Ghana and households with microenterprises.

Table 4.10: Percentage of Households with Debts by Region, Ghana and microenterprises

<table>
<thead>
<tr>
<th>Percentage (%)</th>
<th>No. of Households with Debt holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greater Accra Region</td>
<td>26.8</td>
</tr>
<tr>
<td>Other Regions</td>
<td>33.5</td>
</tr>
<tr>
<td>Ghana</td>
<td>32.8</td>
</tr>
<tr>
<td>Households with Microenterprises</td>
<td>36.5</td>
</tr>
</tbody>
</table>

Source: Author’s computation from Ghana Socioeconomic Panel Survey, 2014

4.3.1 Proportion of Loans Paid by Respondents

The survey gathered data on the proportion of loans paid by respondents as at the time of the survey. This was necessary to know borrowers commitment to loan repayment which also formed part of the study objective. The analysis of the data based on 153 valid observations show that the mean proportion of loan paid in the Greater Accra region was 0.23 with a standard deviation of 0.32.

Comparatively, the proportion of loan paid in the Greater Accra region was less than the proportion paid by borrowers in the remaining nine regions of Ghana at the time of the survey.
For instance, it was found that the mean proportion of loan paid in the remaining nine regions of Ghana was 0.28. The differences in the mean proportion of loans paid in both regions may be attributed to differences in payment plans/schedules, completed payment of loans by some borrowers, difficulties related to business operation and differences in the proportion of the number of debt holdings in both regions (Table 4.9).

A female respondent and a dealer in secondhand clothes selected from the La Nkwantanang-Madina commented on some reasons that usually affected loan repayment based on her own experience. She said;

“I once contracted a loan to trade in vegetables few years back. In the second year of my business, my goods got spoilt due to excess supply over demand in the market and I run into serious debt. By then I had used a loan to pay my suppliers hoping market will be good so I pay back the loan but things went bad. It took me more than grace and benevolent support to pay back the loan to the microfinance institution. Since I started this new job two years ago, I am confident how much I make daily and also knowing my goods will never get spoilt, I am able to service my loan anytime I go for one” (Personal interview, June, 2017).

Another participant in a personal interview said provided business was going on well and he was meeting his daily sales, he had no reason to delay payment of his loan. His concern therefore brings to fore a conditionality factor which is that some borrowers may have paid all or part of their loans because their businesses were thriving well. By implication, those who were unable to pay their loans in full or in part may include those whose intention for the loan had gone bad because of poor sales or decline in business performance.
4.4 Determinants of Loan Repayment

This section presents findings in relation to how socioeconomic variables and loan conditions influence loan repayment by respondents. Model 1, 2, and 3 used proportion of loan paid by borrowers/respondents in Ghana as a whole, Greater Accra in particular and households with enterprises respectively and estimated via a fractional logit estimation equations. For instance, in model 1, the proportion of total indebtedness paid by borrowers was estimated as a function of a set of explanatory variables including age, education, gender, household size, loan size and so forth. The set of explanatory variables in model 1 were those that concern the representative sample of borrowers across the country. In model 2, same variables were used except in this case the sample consisted of only sampled borrowers from the Greater Accra region. In model 3, the sample of borrowers consisted of only households with enterprises. Results are presented in Table 4.11. The table presents the effects of independent variables using odd ratios, which are presented together with standard errors of the coefficients in brackets. The coefficients are not reported in the table. The odds ratios are compared to the number one. Effects significantly greater than one show positive influence on the household’s ability to repay loans. The inverse of odd ratios that are less than one are used to interpret the results of negative effects.\(^4\)

4.4.1 Socioeconomic Factors Associated with Loan Repayment

In model 1, it is evident that based on the nationally representative sample of borrowers, age, education and gender had no significant effects on loan repayment by respondents. In model 2 however, same variables had varying degree of significant effect on loan repayment by

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\(^4\) For example; an odd ratio of 0.2 for households in rural areas is interpreted as follows: borrowers in rural areas are 5 times \((1/0.2=5)\) less likely to pay loans as compared to the likelihood for borrowers in urban areas.
respondents. For instance, in the Greater Accra region, the odd ratio for those aged 61 years old and above repaying their loans was 0.23, indicating they were about 4 times less likely to repay their loans than those between the ages of 15-35 years old, holding other variables constant.

Another important observation that was made relates to the effect of educational level on loan repayment by borrowers. The study found in model 2 based on odds ratio of 0.410 for basic education, 0.331 for secondary education, 0.210 for tertiary education and 0.000 for other forms of education that educational level of borrowers in the Greater Accra region had significant effects on loan repayment as compared to the likelihood of those who have never been to school. For instance, the odd ratio for borrowers with basic education in the Greater Accra region implies that they were about two times (2.4) less likely to repay their loans while those with tertiary education qualification were about five times less likely to repay their loans as compared to those who have never been to school. Drawing from this finding, it can be argued that perhaps reasons why Greater Accra recorded lower proportion of loan paid compared with the country as a whole is because the region has more educated borrowers compared with that of Ghana as a whole. The finding is therefore incongruent with that of Eze and Ibekwe (2007) who found that educational level of borrowers has a significant positive effect on their loan repayment. This indicates that human beings in general are largely unpredictable and therefore it is difficult to provide someone access to a loan based on his/her educational characteristics. For example, a male entrepreneur who sold at the La Nkwantanang-Madina Municipality and participated in a personal interview added that;
“I do not think loan repayment is influenced by a persons’ education. Rather, I think it is about hard work and how favourable the business goes through the grace of God that a person can pay a loan on time” (Personal interview, June, 2017).

4.4.2 Effect of Loan Conditions on Loan Repayment

The variables used as loan conditions in the three models includes loan size, savings, interest on loans, collateral, loan duration, purpose of loan and source of loans. In model 2, only two variables had significant effect on loan repayment. These were loans for consumer goods and loans obtained from sources other than informal creditors. The odd ratio of loans obtained for purposes of consumer goods on repayment was 0.07 and it indicates that borrowers who obtained loans for consumer goods were about fourteen times (14.2) less likely to repay their loans compared with those who obtained loans for agricultural purposes, with all other variables held constant. It also implies that loans obtained for consumer goods have negative effect on repayment. Similarly, in model 2, those who obtained loans from sources other than from informal creditors had an odd ratio of 0.155 indicating they were about six (6.4) times less likely to repay their loans compared with those who obtained loans from formal sources, with other variables held constant. The effect size although significant, was negative. By implication, the finding means that it may be unwise to grant borrowers with access to loans for purposes of purchasing consumer goods since they are more likely not to repay the loan at all or will do so at a date much later than what is agreed. This probably may result because the intention for securing the loan is not to generate income to enhance opportunity for repayment of the loan but rather for direct consumption which compounds effort to repay the loan.

Comparatively, there were more loan conditions affecting loan repayment in model 1 and 3 than in model 2. Loan size and loan interest in model 1 had significant positive effect on loan
repayment by borrowers. By implication, it can be argued based on the odds ratio of 1.466 and 1.002 for loan size and loan interest that it is worth granting loans to borrowers on conditions of loan size and loan interest since these two conditions have positive effects on loan repayment. The finding in relation to the effect of loan size on repayment supports that of Roslan and Mohd-Zaini (2009). The authors found that loan size has a positive effect on loan repayment. This implies all things being equal, the greater the loan amount the more likely borrowers will pay back the loan. The opposite was however expressed by a female participant who responded to a personal interview in Madina. The respondent, age 49 and a female trader in ladies footwear added;

“It is very true that people cannot simply pay back their loans because the loan amount was too much and it has attracted a lot of interest as well. Because of that they struggle much to pay back, especially when their businesses do not go as planned” (Personal interview, June, 2017).

More importantly, interest on loans had similar effect on loan repayment in model 1 and 3 but not in model 2. The effect of interest on loan repayment by respondents was found to be positive and significant at 1 percent level of significance (Table 4.11). The odd ratio for the effect of interest on repayment in model 1 and 3 was 1.002. As indicated earlier, the mean interest on loans in the Greater Accra Region at the time of the survey was less compared with what was found in the other regions of Ghana and by that it can be argued that high interest loans affect loan repayment positively. The finding is thus contrary to what was observed by Eze and Ibekwe (2007) that higher loan interest reduces the probability of loan repayment because it compounds the amount for refund. The differences in the finding could also be as a result of a probable cause which is that perhaps borrowers outside the Greater Accra region and those in households with enterprises feared to accumulate loans and hence they pay back their loans on time especially when the interest on the loan is high.
The study also found in model 2 that possession of collateral by borrowers has no significant effect on their repayment. However, in model 1 and 3 the opposite was observed. The odds ratio for the effect of loan collateral on loan repayment was 1.570 and 1.436 for Ghana as a whole and household with enterprises in particular was positive. This implies that the use of collateral as loan security made people pay back their loans at the time of the survey. This finding corroborate with other studies (e.g. Oludayo 2015) which found that borrowers who used collateral as a condition for accessing loans influenced them to pay back the loans. However, same could not be said for the Greater Accra region which is the focus of the study and this means that not in all circumstances do loan collateral influences loan repayment significantly and by implication creditors of loans should also consider other factors in their decision for granting loans to borrowers, especially in the Greater Accra region.

Table 4.11: Estimated Fractional Logit Results of Factors Associated with Loan Repayment

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1 National</th>
<th>Model 2 Accra</th>
<th>Model 3 Households with Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable : Proportion of Total Indebtedness Paid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age(Years) A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36-60</td>
<td>0.973(0.095)</td>
<td>0.926(0.341)</td>
<td>0.908(0.126)</td>
</tr>
<tr>
<td>61+</td>
<td>0.999(0.159)</td>
<td>0.237(0.193)*</td>
<td>1.104(0.266)</td>
</tr>
<tr>
<td>Education Level B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>1.029(0.104)</td>
<td>0.410(0.141)**</td>
<td>1.109(0.154)</td>
</tr>
<tr>
<td>Secondary</td>
<td>0.819(0.142)</td>
<td>0.331(0.172)**</td>
<td>0.895(0.211)</td>
</tr>
<tr>
<td>Tertiary</td>
<td>1.065(0.186)</td>
<td>0.210(0.154)**</td>
<td>0.720(0.211)</td>
</tr>
<tr>
<td>Others</td>
<td>1.074(0.471)</td>
<td>0.000(0.000)**</td>
<td>0.787(0.607)</td>
</tr>
<tr>
<td>Gender C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>0.966(0.092)</td>
<td>1.576(0.559)</td>
<td>0.956(0.139)</td>
</tr>
<tr>
<td>Household Size</td>
<td>1.022(0.019)</td>
<td>0.911(0.091)</td>
<td>1.016(0.026)</td>
</tr>
<tr>
<td></td>
<td>MODEL 1</td>
<td>MODEL 2</td>
<td>MODEL 3</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td><strong>No. of Obs.:1,770</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Wald Chi2 (25):198.29</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Prob&gt;Chi2:0.0000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>No. of Obs.:153</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Wald Chi2 (23):930.35</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Prob&gt;Chi2:0.0000</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>No. of Obs.:819</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Wald Chi2 (24):119.20</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Prob&gt;Chi2:0.0000</strong></td>
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</tbody>
</table>
The study further anticipated that longer loan duration will have no significant effect on loan repayment by respondents. The analysis shows that in the Greater Accra region, loan duration had no significant effect on loan repayment. However, based on the model estimations, it was found in model 1 and 3 that loan duration as a condition for accessing a loan had a significant positive effect on loan repayment. The odd ratios of loan duration effect on repayment were 1.014 in model 1 and 1.016 in model 3 and were significant at 5 percent.

Based on the above discussion in relation to the findings, it can be argued that more loan conditions affect loan repayment significantly at the national level compared with the Greater Accra Region in particular. As a result, lenders in the Greater Accra region may have to be extra careful and probably devise more prudent ways to retrieving their loans from borrowers, especially from unknown borrowers and those without any good record of loan servicing.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the key findings and draws conclusions to provide recommendations based on the outcomes of the study. Therefore, it provides a synopsis of the study background, as well as the methodology of the study. Primarily, it is organised into three major sections based on the chapter heading.

The study generally sought to examine the factors associated with loan repayment among microenterprises in the Greater Accra region. This objective was guided by the growing evidence of loan default in Ghana and among microenterprises in general. The study was therefore hinged on two hypotheses which were that repayment of loans is first of all independent on socioeconomic factors; and secondly, loan repayment is independent on loan conditions. Based on these hypotheses, three objectives were pursued. First, to estimate the proportion of households with debt holdings in the Greater Accra region. Second, to estimate the socioeconomic factors associated with loan repayment among microenterprises. Third, to ascertain the effects of loan conditions on repayment.

To achieve these overarching objectives, two data sets were used and these include quantitative and qualitative data. The rationale for this mix methods was drawn from the realist thinking which is that, mix methods provides diverse perspective of research and reduces the biases associated with one approach used for social investigation. Against this backdrop, the secondary quantitative data was derived from a nationally representative survey dubbed ‘the Ghana Socioeconomic Panel Survey’ of 2014. At the national level, a sample of 1,901 borrowers
excluding that of Greater Accra region constituted the sample size and consisted of households with enterprises. In the Greater Accra region however, the valid observation was 169. The analytical model involved an estimate of proportions using logit models also known in the literature as the fractional logit model. STATA version 14.0 was used to code, stored; perform the analysis of the quantitative data. More specifically, descriptive and inferential statistics were employed to analyse the data.

5.2 Summary of Key Findings

With regards to the objective on estimating the proportion of households with debt holdings in the Greater Accra region, the study found that the proportion of households with debt holdings in the Greater Accra region was 26.8 percent and it was less compared with the proportion of households with debt holdings in the remaining nine regions of Ghana and households with microenterprises.

In relation to socioeconomic variables associated with loan repayment, the study found some interesting results. It was found that in the Greater Accra region borrowers with some level of education affected their loan repayment compared with those without any form of education. Similar effect was found for borrowers aged 61 years and above in the Greater Accra region.

The effect of loan conditions on repayment was also observed. The findings indicate that in the Greater Accra region, only two conditions of loans namely loans for consumer goods and loans obtained from sources other than formal and informal sources were significant determinants of loan repayment by respondents. Among households with enterprises, the finding was relatively different. Loans obtained for purposes of housing, business, and consumer goods were found to
have significant effect on loan repayment compared with agricultural purposes. Loan collateral was found to have a significant effect on loan repayment compared with no collateral. Informal source of loan was found to significantly affect loan repayment compared with formal sources. Also, interest on loans, loan size, and loan duration had significant positive effect on loan repayment among households with enterprises. More importantly, the loan duration, loan size and loan interest had positive effect on loan repayment, loan collateral was found to have significant effect on loan repayment compared with no collateral and informal sources of loan was found to significantly affect loan repayment compared with formal sources of loan based on the national level data.

5.3 Conclusions and Recommendation

The study has provided useful information of households with microenterprises that have debts to pay in the Greater Accra Region and other regions. Households engaging in microenterprises in their quest for funds access loans from both formal and informal sources. Majority of these borrowers access their loans from informal sources. These loans are contracted for various purposes but the major purpose of the loans contracted in this study according to the Ghana Socioeconomic Panel Survey (2014) is for the purposes of business.

Some socioeconomic characteristics and loan conditions of borrowers in the Greater Accra Region, Ghana and households with microenterprises affected loan repayment differently.

The study found that in the Greater Accra Region, educational level, age (61 years and above), loan for consumer goods and loans obtained from sources other than formal and informal sources significantly affected loan repayment.
Loan size, loan interest, loan collateral, loan duration, loan purpose (business, housing and consumer goods) and sources of loan (informal) were found to have significant effect on loan repayment among households with microenterprises.

Based on the national level data, loan size, loan interest, loan collateral, loan duration and sources of loan (informal sources) were found to have significant effect on loan repayment.

Based on the findings, the study recommends that creditors should consider these factors (age, educational level, loan size, loan interest, loan collateral, loan duration, purpose of loan and sources of loan) in designing credit facilities.
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Light INC, Somerset.


APPENDIX I

UNIVERSITY OF GHANA

INSTITUTE OF STATISTICAL, SOCIAL AND ECONOMIC RESEARCH (ISSER)

INTERVIEW GUIDE/SCHEDULE

Good morning/afternoon! My name is……………………. and I am a student of University of Ghana. I am conducting a research on the topic: FACTORS INFLUENCING LOAN REPAYMENT AMONG MICROENTERPRISES IN THE GREATER ACCRA REGION: A CASE STUDY OF LA NKWANTANANG MADINA MUNICIPALITY. The research seeks to gather responses from you about the factors influencing loan repayment in the municipality. There will be no risk involved. All answers will be treated as confidential and I expect you to answer all questions truthfully without any worries. I hope you will participate since your views are important. The discussion will take less than one hour to complete. Do you agree to participate?
GENERAL INFORMATION

Date .......................................... 

Time of the interview .................................

Interviewee Name

..............................................................................................................

PART A

I. BACKGROUND INFORMATION

Nature of business.................................................................

Number of years in business............................................

Gender

  a. Male [ ]           b. Female [ ]

Age .................................

Marital Status

  a. Married [ ]  b. Single [ ]  c. Widow [ ]  d. Divorced [ ]  e. Separated [ ]

Educational Qualification

  a. None [ ]  b. Basic [ ]  c. Secondary/ Technical/ Vocational [ ]
  d. Teacher/Nursing [ ]  e. Tertiary [ ]  f. Others, please
  specify..............................................................
Number of Household Members

…………………………………………………………………………………………

Number of employees

…………………………………………………………………………………………

PART B

II. How is business? What account for the state of business, and what you think should be done to improve the situation?

III. ACCESS TO CREDIT AND REPAYMENT OF CREDIT

Q1. How did you finance the operations of your business in the last 12 months?

Q2. How much funds in total came from loans for your business operation?

Q3. What were the conditions attached on the loan?

Q4. How do these loan conditions affect your repayment?

Q5. Were you able to pay back the loan on time?

Q5a. if yes how were you able to repay back on time

Q5b. If No. why were you not able to repay on time

Q6. In general, how much time do creditors give to people who are involved in this type of enterprise?

Q7. The last time you secured a loan for your business what was the frequency of loan repayment? Was it a challenge? How? Why?

Q8. How is default rate or repayment of loans related to the following? Age, Gender, Educational level, Household size, Savings, Interest rate, Collateral, Purpose of loan, Source of loan, Loan size and Loan duration. Explain.
Q9. What challenges do you and your colleagues in the sector face with access to credit? What should be done to address the challenge?

This is the end of the interview

Thank You